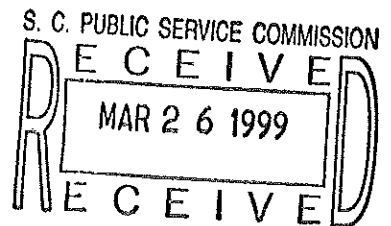


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DIRECT TESTIMONY

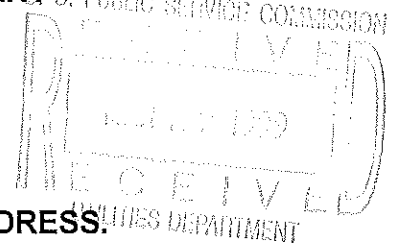
OF

THOMAS W. YARBOROUGH

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 1999-002-E



Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Thomas W. Yarborough, 1426 Main Street, Columbia, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Supervisor of Electric Rates and Rate Services Departments of South Carolina Electric & Gas Company (SCE&G).

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate of the University of South Carolina where I received a Bachelor of Science Degrees in Business Administration with majors in accounting and banking, finance, insurance and real estate. In December 1977, I received a Master of Accounting. Since joining South Carolina Electric & Gas Company in September 1969, I have held various positions. In January 1996 I assumed my present position. I have participated in cost

RETURN DATE: _____
SERVICE: OK MR

1 of service studies, rate development and design, and rate evaluation
2 programs for both the electric and gas operations. I am a member of the
3 Southeastern Electric Exchange Rate Section.

4 **Q. WILL YOU BRIEFLY SUMMARIZE YOUR DUTIES WITH SOUTH**
5 **CAROLINA ELECTRIC & GAS COMPANY?**

6 A. I am responsible for the design and administration of the Company's electric
7 rates and tariffs including electric fuel adjustment. In addition, I am
8 responsible for the Company's electric allocation studies.

9 **Q. MR. YARBOROUGH, WHAT IS THE NATURE OF YOUR TESTIMONY IN**
10 **THIS PROCEEDING?**

11 A. The purpose of my testimony is to provide the actual fuel cost data for the
12 period March, 1998 through February, 1999, the historical period under
13 review in this proceeding. I will also provide the computations for the
14 projected fuel cost per kilowatt-hour of sales for the period May, 1999
15 through April, 2000, along with the Company's recommended fuel rate for
16 the period ending April, 2000.

17 **Q. PLEASE PROVIDE THE COMMISSION WITH A VERY BRIEF SUMMARY**
18 **OF THE HISTORY OF THE FUEL ADJUSTMENT CLAUSE.**

19 A. Beginning in late 1969 and early 1970 the price of fuel used to generate
20 electricity began to increase and became more volatile. The Company

1 needed a method to recover these increased costs without using the normal
2 rate proceeding before the South Carolina Public Service Commission
3 (SCPSC).

4 In March of 1970, the Company filed with the SCPSC an application for
5 approval of an automatic fuel adjustment clause which was approved in
6 April of that year. The clause was a cents per MBTU with a certain amount
7 included in base rates and the remainder recovered via a fuel adjustment
8 charge. This clause underwent several modifications and eventually
9 became a cents per KWH clause in 1976 after a public hearing under a rule
10 to show cause. The order as a result of that hearing, in addition to
11 modifying the clause, resulted in the establishment of a semi-annual review
12 of fuel costs to evaluate the Company's plant performance, purchasing
13 practices and consideration of the appropriate base to be established for
14 the following six months.

15 In 1979, the Commission modified the Adjustment Clause, removing the
16 automatic monthly application. This necessitated the establishment of a
17 constant fuel component in the base rates which would be determined by
18 projecting average monthly fuel costs for the succeeding six months.

19 Differences between recovery of fuel costs through base rates and actual
20 fuel costs would be booked monthly to unbilled revenues. At the conclusion

1 of the six month period, the balance of unbilled revenues (plus or minus)
2 would be included in the determination of the projected fuel component to
3 be included in the base rates for the subsequent period. Thus the factor
4 would no longer appear on customer bills as a separate line item.

5 Also the Commission, in another order, stated that the fuel component
6 previously approved would be effective for an additional three months. In
7 addition to accomplishing a significant reduction in the cumulative over-
8 recovery of fuel costs this placed the Company on a current schedule of
9 hearings in April and October with changes effective in May and November.

10 In 1983, the legislature of South Carolina codified the rules and regulations
11 of the Commission regarding recovery of fuel costs and provided for a semi-
12 annual proceeding for the Commission to review the prudence of the
13 Company's fuel costs and purchasing procedures.

14 Effective May 29, 1996, the S. C. Code of Laws (Section 58-27-865) was
15 amended to change the requirement for a semi-annual fuel clause hearing
16 to an annual fuel clause hearing before the Commission. Secondly, the
17 review process included a prudence examination which included a
18 requirement of a net capacity factor of nuclear units of 92.5% or greater.

19 Thirdly, the law allowed the utilization of SO₂ emission allowances in the
20 cost of burned fuel which will begin in year 2000.

1 **Q. WHAT IS THE COMPANY'S CURRENTLY APPROVED RATE FOR FUEL**
2 **COST?**

3 A. The Commission in Order No. 98-002, dated May 1, 1998 approved a 1.285
4 cents per KWH fuel component which is currently in effect.

5 **Q. WILL YOU PLEASE EXPLAIN EXHIBIT NO. ____ (TWY-1)?**

6 A. Exhibit No. _____ (TWY-1) shows the actual fuel cost and unbilled
7 revenue experienced by the Company for the months of March 1998
8 through February, 1999. As shown on this Exhibit, the Company has an
9 actual under collection of \$1,290,361 as of February, 1999. The forecasted
10 balance at April, 1999 is an under collection of \$3,293,681.

11 **Q. WILL YOU PLEASE EXPLAIN EXHIBIT NO. _____ (TWY-2)?**

12 A. Exhibit No. _____ (TWY-2) provides the calculation of the projected
13 fuel component for the twelve month period May, 1999 through April, 2000.
14 This component consists of the projected fuel costs for this period and the
15 projected under recovery at April, 1999. For the twelve months May, 1999
16 through April, 2000 that cost is 1.337 cents per KWH.

17 **Q. HOW WOULD THE PROJECTED UNDER COLLECTION OF FUEL COST**
18 **IMPACT THE COMPANY'S FORECASTED FUEL RATE?**

19 A. The anticipated under collection through April, 1999 of \$3,293,681 would
20 increase our fuel rate .017 cents per KWH for the twelve month period

1 ending April, 2000. Increasing the projected fuel cost for the under
2 collection produces a total cost of 1.337 cents per KWH for the twelve
3 month period ending April, 2000.

4 **Q. MR. YARBOROUGH, WHAT FUEL COMPONENT IS THE COMPANY**
5 **PROPOSING IN THIS PROCEEDING?**

6 A. The Company is proposing that the fuel component be changed to 1.337
7 cents per KWH effective with the billing month of May, 1999 and continuing
8 through the billing month of April, 2000. The Company believes that
9 increasing the fuel component to 1.337 cents per KWH follows the
10 Commission's intent in the establishment and continuation of the fuel clause
11 by maintaining a relative balance between actual and projected fuel costs
12 and sales over the long run.

13 **Q. WILL YOU PLEASE EXPLAIN EXHIBIT NO. _____ (TWY-3)?**

14 A. Exhibit No. _____ (TWY-3) contains the Company's fuel costs
15 forecast and projected recovery calculations by months for May, 1999
16 through April, 2000. This exhibit reflects the monthly and cumulative over
17 and under projected fuel cost collections expected by the Company using
18 my recommendations as to fuel rate level and timing of the fuel rate
19 change. My projection shows an under recovery of \$3,293,681 at April,
20 1999 and an under recovery of \$15,521 at April, 2000.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes.**

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